Imperial Oil Limited Annual Report 1968

Financial and Operating highlights

FINANCIAL

Earnings of $100 million were up 4.7 per cent over 1967.
Dividends totalled 52½ cents per share (on the basis of the four-for-one stock split), the same as in 1967.
Capital and exploration expenditures were $188 million.
In January, 1968, through a debenture issue, $50 million was secured to provide money for expansion.
In November, the board of directors approved a four-for-one subdivision of the company's shares. This was ratified at a special meeting of shareholders January 8, 1969, and went into effect January 17.

EXPLORATION AND PRODUCTION

Exploration was intensified in the Arctic and continued in the western provinces and the Grand Banks area off Newfoundland.
The company's search for minerals saw crews active in seven provinces and the Yukon.

TRANSPORTATION

A new products tanker was launched and construction of a second started.
A products pipe line from Montreal East refinery to the Quebec Eastern Townships began operation.

CHEMICAL PRODUCTS

Imperial began marketing polypropylene and developed export markets for polyvinyl chloride.
Domestic and export markets for fertilizers were expanded.
Construction of the Redwater fertilizer plants neared completion.

PETROLEUM PRODUCTS

A major expansion and modernization program was continued at Sarnia.
Ten new automotive service centres were opened; Essomatic credit card privileges were extended; a new oil-fueled water heater was added to the home appliance line.
A new compound was added to Esso Extra gasoline to improve engine performance; an improved line of motor oils was introduced; Imperial agents on the Prairies started marketing a full line of herbicides.

FINANCIAL DATA

		1968	1967
		dollars in thousands except per share amounts	
Earnings	$	100,045	95,515
per share — after 4-for-1 stock split	¢	78	75
as % of revenues	%	6.9	7.2
as % of shareholders' investment at Jan. 1	%	11.5	11.5
Dividends paid to shareholders	$	67,361	67,050
per share — after 4-for-1 stock split	¢	52½	52½
as % of earnings	%	67	70
Shareholders' investment at year end	$	905,634	870,038
per share — after 4-for-1 stock split	$	7.05	6.79
Capital and exploration expenditures	$	187,723	164,978

OPERATING DATA

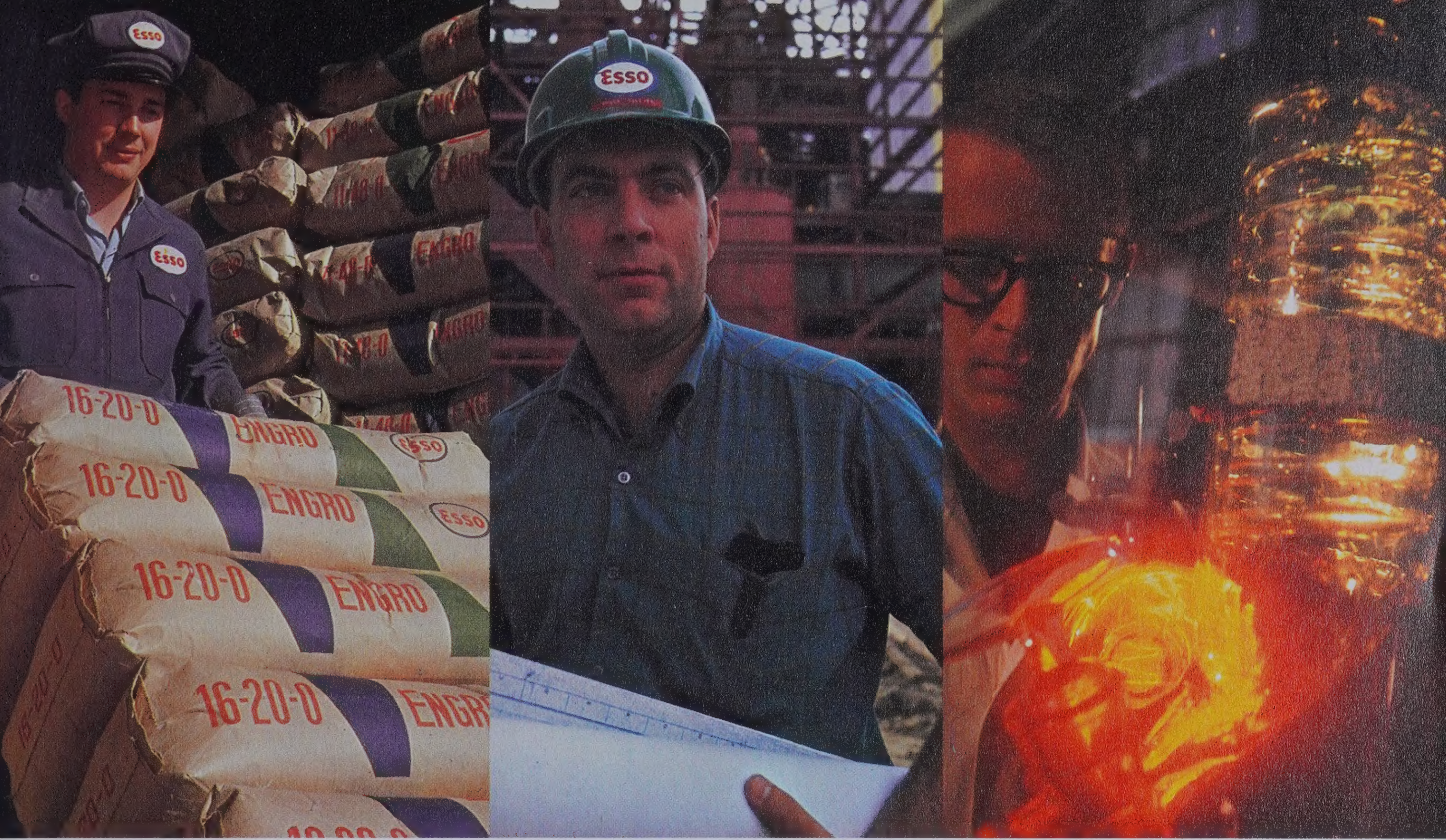
	1968	1967
	thousands of barrels per day	
Petroleum product sales	383	370
Crude oil processed at refineries	359	350
Crude oil and natural gas liquids production		
gross	173	163
net	150	141
Natural gas production	*millions of cubic feet per day*	
gross	381	334
net	326	283
Gross recoverable reserves*		
crude oil and natural gas liquids (millions of barrels)	1,593	1,517
natural gas (billions of cubic feet)	3,117	2,860

*After allowing for production to date, these are estimated reserves which the company feels can reasonably be considered as proved.

Trevor F. Moore

Senior Vice-President
Imperial Oil Limited

Toronto, Ontario



DIRECTORS

J. A. Armstrong
J. A. Cogan
L. D. Fraser
J. W. Hamilton
A. C. Harrop
J. F. Mathis
T. F. Moore
R. S. Ritchie
V. Taylor
W. O. Twaits

OFFICERS

President
W. O. Twaits

Executive Vice-President
J. A. Armstrong

Senior Vice-Presidents
J. A. Cogan
L. D. Fraser
T. F. Moore
V. Taylor

Vice-Presidents
J. W. Hamilton
A. C. Harrop
J. F. Mathis
R. S. Ritchie

General Secretary
G. M. Henderson

Comptroller
G. R. McLellan

Treasurer
D. W. McGibbon

General Counsel
J. F. Barrett, Q.C.

Imperial Oil Limited was incorporated under The Canada Joint Stock Companies Act, 1877 on September 8, 1880. Its head office is at 111 St. Clair Avenue West, Toronto 7, Ontario.

Principal subsidiaries of Imperial are: Atlas Supply Company of Canada Limited, Building Products of Canada Limited, Champlain Oil Products Limited, Home Oil Distributors Limited, Imperial Oil Enterprises Ltd.

Imperial Oil Limited shares may be transferred at the following offices: head office of Imperial Oil Limited; principal offices of Montreal Trust Company at Halifax, N.S., Montreal, Que., Toronto, Ont., Winnipeg, Man., Regina, Sask., Calgary, Alta., Vancouver, B.C.; Bankers Trust Company, New York, N.Y.

The annual meeting of shareholders will be held at 11:00 a.m., Thursday, April 24, 1969, in the Canadian Room, Royal York Hotel, Toronto, Ontario.

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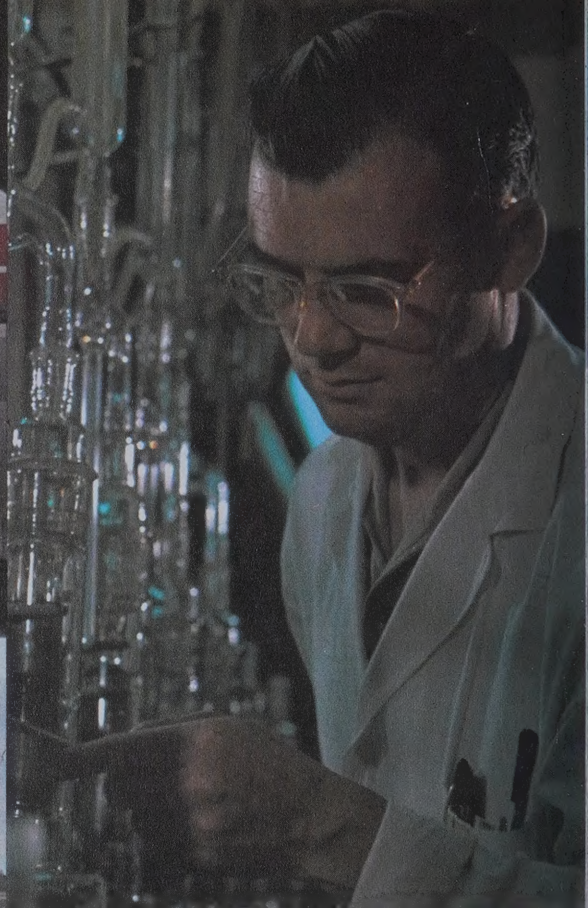

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Report to the Shareholders for the year ending December 31, 1968

The year 1968 was one of continued progress for Imperial Oil as the company again set records in all aspects of operations. Net earnings were $100 million, or 78 cents a share, an increase of 4.7 per cent over 1967.

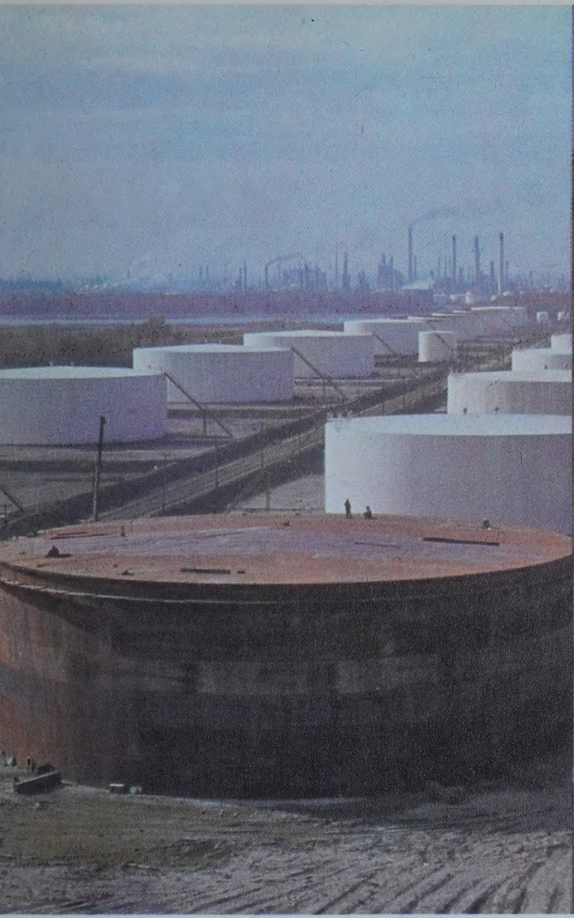
The company's capital expenditures were $156 million, higher than at any time in the company's history. Investments for new manufacturing facilities for petroleum products and chemicals, including major new units at Sarnia and a large fertilizer complex at Redwater, Alta., totalled $81 million. Oil and gas production facilities required $29 million, and $43 million was spent on new product distribution and sales facilities.

Serious difficulties were experienced during 1968 in starting up new units at Sarnia. These resulted in severe distortion of normal supply patterns which significantly affected company earnings. The problem at Sarnia was two-fold. One was abnormal difficulties attending start-up, due to advanced technology, size and complexity of the new units. The other factor was delay in completion dates resulting from labor difficulties experienced by contractors. Although substantial problems remained at year end, the major operating difficulties at Sarnia are being resolved.

In view of growing public and government concern over conservation, it is of interest that Imperial spent more than $6 million during 1968 on equipment to control pollution from its manufacturing and other operations. Over the past 10 years the company has spent more than $40 million on facilities that directly and indirectly contribute to air and water conservation. As a company with a long history of pollution control, Imperial agrees that legislation is required to establish control standards. Legislation, however, must be based on adequate criteria so that not only the citizen's environment, but his pocketbook, will be protected.

The use of games in the service station market tended to decline during 1968, although a number of companies continued to make extensive use of promotional programs. In the long run, customer choice is made on the basis of quality and service, and Imperial's marketing programs are designed to maintain its leadership in these areas. To this end, Imperial has pioneered the new type of service centre now operating in many cities across the country. Ten of these went into operation in 1968, bringing the total to 36. The centres feature complete services for the motorist, including diagnostic clinics which provide customers with an accurate analysis of car condition. With growing public concern over reliable repair service, and safety, the clinics have proved to be particularly popular.

During 1968 the company introduced a new additive to Esso Extra gasoline, and started marketing a new line of motor oils. The gasoline additive not only removes deposits from engine parts, but also holds dirt in suspen-



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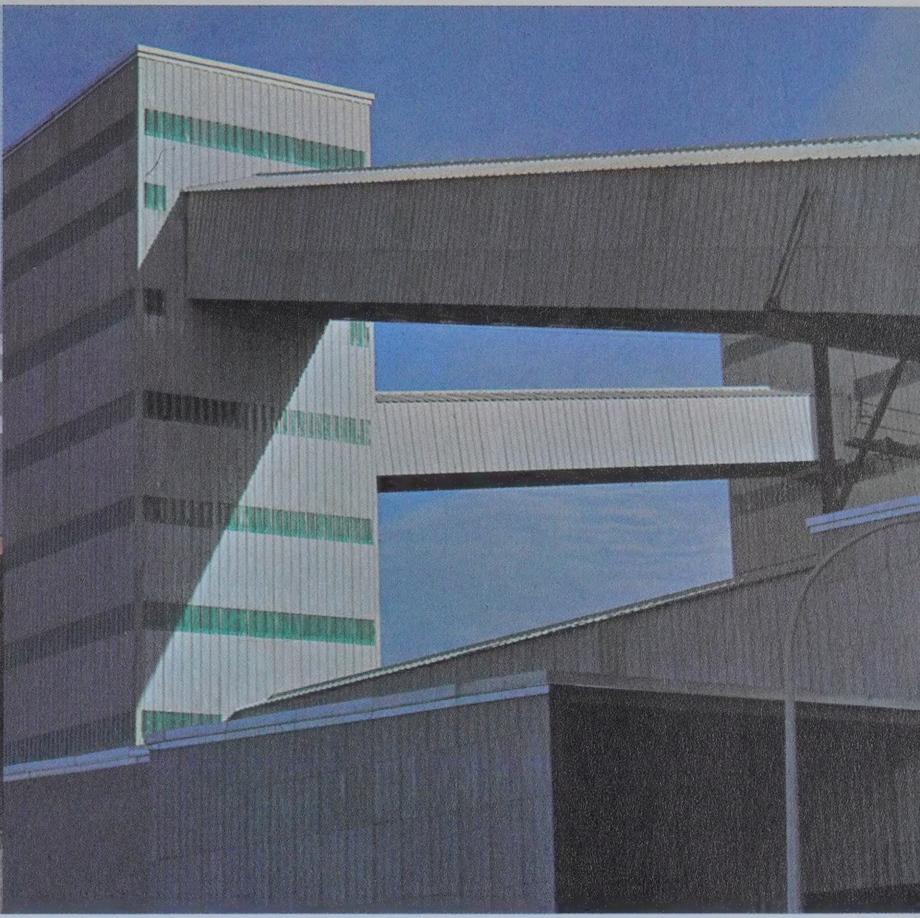

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sion and prevents the formation of deposits. The new motor oils give greater protection against rust, sludge and varnish deposits in engines and amply exceed automakers' warranty requirements.

In recent years the industry's marketing practices have been the subject of intense study by government commissions and committees. It is gratifying that the Royal Commission appointed to study the price structure of gasoline and diesel fuel in the province of Nova Scotia reported in December that its two-year investigation found the industry's prices fair, its profits reasonable, and its practices based on competition.

In the chemicals field, the company continued to develop fertilizer markets in western Canada and in the United States. A network of some 400 warehouses is now operating on the Prairies for this purpose, and export accounts have been developed in the northwest

PHOTOS *1. The company maintained its leadership in the supply of aviation fuels in 1968. 2. Syncrude Canada Ltd., in which Imperial has a 30 per cent interest, continued research on tar sands recovery. 3. A new unit was added to the tank farm at Sarnia. More than 200 million gallons of crude oil and product can be stored in this area. 4. Screening and blending facilities were built as part of the Redwater fertilizer complex. 5. A barge carries toluene, made at Imperial's new petrochemical plant at Ioco, to a west coast customer. Toluene is used as the starting material for the manufacture of adhesives for the plywood industry.*

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United States. When the fertilizer complex goes into operation in 1969, Imperial will have an integrated manufacturing-marketing operation in this field.

In November, to encourage wider shareholder participation, Imperial's board of directors passed a bylaw subdividing the company shares on a four-for-one basis. The bylaw was considered and approved at a special general meeting of shareholders on January 8, 1969.

The most significant development in the oil industry during 1968 was a major crude discovery at Prudhoe Bay on the Alaskan north slope some 200 miles west of the Canadian boundary. There is little doubt that Prudhoe is one of the largest oil finds ever made in the western hemisphere. The geologic setting along the Canadian Arctic coast, east of the Alaskan boundary, is similar to Prudhoe and the entire area may prove to be a new oil province of world importance. Imperial has a large acreage position in this coastal area which it is actively exploring by the drill and seismic surveys.

It is too early to assess the ultimate impact of the Alaskan as well as other potential discoveries along the Arctic coast. Obviously climate, terrain, and transportation factors pose difficult technical problems, and enormous investment will be required to bring oil to the market from this area in competition with other sources of supply. Indeed, only very large reserves can justify the required preinvestment. A major factor is economic transportation to continental markets, involving pipeline and marine possibilities which not only require new technology but investments exceeding a billion dollars. The importance of determining the most efficient transportation system is indicated by the fact that Imperial's affiliate, Humble Oil and Refining Company, in conjunction with others, is sponsoring a multi-million dollar test this summer to determine the feasibility of large tanker movement through the Northwest Passage. Imperial, as well as Canadian government agencies, is cooperating in these tests which could open up the Arctic, not only for the movement of oil but to mineral and other resource development.

Present indications are that Alaskan oil will start to enter the continental supply system in 1972, and in the interval exploration activity will have determined the extent of the Arctic potential. In any event, large-scale production from this area will have an important effect on continental supply patterns which cannot be reasonably projected at this time. However, with the growing North American demand, it is clear that major new continental sources will be required and these must be developed well ahead of the market, particularly when they are in remote areas which depend on massive transportation investments.

New discoveries and new competitive sources of crude supply represent commercial risks that continually confront the petroleum industry. On the other hand, environmental change imposed by actions or potential actions of governments has become the most difficult factor in investment decisions.

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The oil industry is highly capital intensive and large-scale preinvestment is involved, as typified by the Arctic where huge sums will be spent before any oil reaches the market. The industry is, therefore, seriously concerned with the investment climate and continuity of regulatory and fiscal policy.

Tax changes included in the recent federal budget, and the possibility of further major tax reforms, pose the prospect that the industry again will find itself committed to major investments predicated on fiscal and regulatory policies which subsequently may be substantially changed. For example, in the light of the obviously required and substantial preinvestment in Arctic exploration, it is difficult to understand why the federal government continues to impose a severe handicap on oil industry exploration by insisting upon the principle of net depletion. It is even more difficult to understand, in the light of various studies and recommendations, why a non-resident withholding tax on expenditures for scientific research should be instituted. This will have

PHOTOS ***6. A new line of motor oils which give greater engine protection was introduced in 1968. 7. Polybottle Ltd., an Imperial subsidiary, developed the first shatterproof PVC container in Canada for food products. 8. During the year Imperial had three seismic parties at work in the Arctic. 9. Living quarters for an Arctic exploration site are loaded aboard aircraft at Hay River, N.W.T. 10. Drilling for natural gas at Quirk Creek in southern Alberta foothills.***

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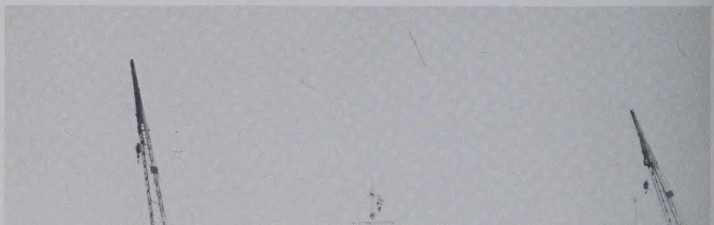
the effect of either insulating Canadian companies from access to important world-wide scientific information or alternatively reducing the amount of research they can carry on in Canada. In both instances, Canadian industry is placed at a disadvantage vis-a-vis international competition.

In a world of steadily increasing energy requirements, there are great opportunities for development of the Canadian oil industry. To take advantage of these opportunities it must have the investment climate and technological know-how which were the bases for the remarkable development of Canadian oil resources in the postwar period. Imperial, with its long history in the Canadian industry and its human and financial resources, is in an excellent position to take advantage of these opportunities.

Again, on behalf of the directors, may I express appreciation to the shareholders for their continued support and to the employees whose dedicated efforts made 1968 such a successful year.

W. O. Twaits
President



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Operations Review

In 1968 the company's wells produced more oil and natural gas than ever before; its nine refineries processed more crude oil than ever; and its sales of both petroleum products and chemicals were at a new high. All in all, a good year.

Sales of petroleum products averaged 383,000 barrels a day compared with 370,000 in 1967. Among the highlights of the year's marketing operations were the following:

• The range of products was extended by the gasoline additive and motor oils mentioned by the president, by introduction of a full line of herbicides for the Prairie farm market and of a new oil-fueled water heater. The heater, available to home owners on a rental basis, provides economical operation and gives faster hot water recovery than those fueled by gas or electricity.

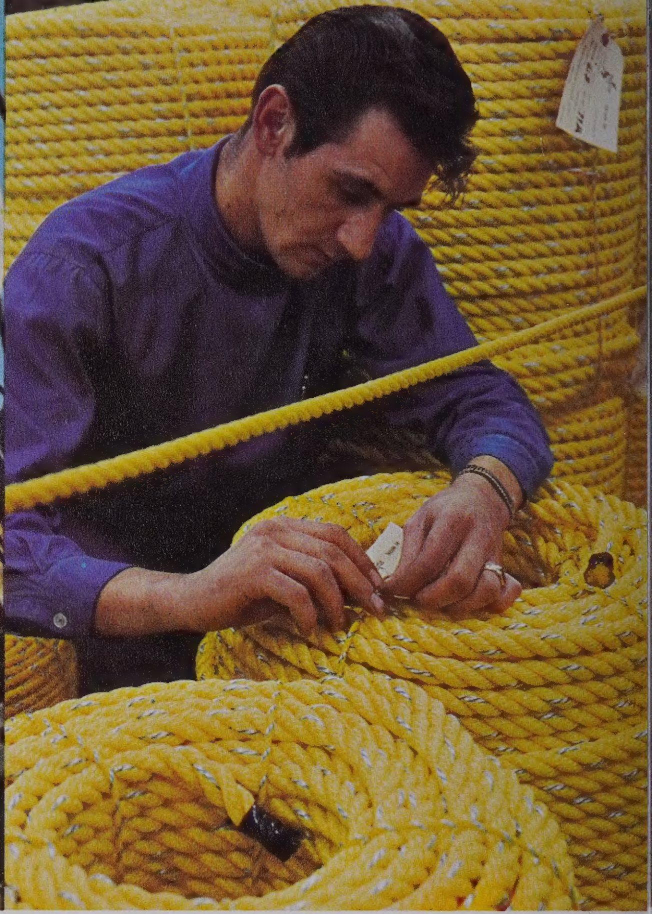
• A number of steps were taken to provide still greater service to customers. Motorists can benefit from the expanded facilities offered by 10 new automotive service centres and from extensions of Essomatic credit card coverage, already the widest of any oil company in Canada, to include acceptance at Quality Motels in Canada and the United States. In the farm market a major soil sampling service was introduced in the Prairies through which farmers can call on Imperial agents to take soil samples from their fields and, with the advice of agronomists, to plan their fertilizer programs.

• Sales in the industrial and commercial markets, which account for about one-half of the company's sales volume of petroleum products, showed good gains. The extent of Imperial's distribution facilities makes it possible for the company to supply many major construction projects, including those related to resource development in remote areas of the country.

• Leasing and rental arrangements between Imperial and its dealers were extensively revised. The company places great importance on maintaining good relations with its dealers and other sales associates. Training programs are provided; advisory boards, at which dealer and company representatives discuss matters of mutual interest, meet regularly; terms of franchises and rental agreements are reviewed constantly.

Gasoline prices continued to be at low levels in many parts of Canada. The fact that Imperial and the industry are receiving less for gasoline than a decade ago has been obscured by rising taxes. Gasoline taxes were increased

PHOTOS *11. New high speed computer equipment which reads data through a mechanism similar to the human eye was installed to improve billing efficiency. 12. Imperial carries on mineral exploration in many parts of Canada. This crew is at work in Nova Scotia. 13. "Imperial London" is outfitted with a bulbous bow, designed to increase its speed. 14. Imperial's Dartmouth, N.S., refinery celebrated its 50th anniversary in 1968. 15. The "Imperial Bedford" was launched at Lauzon, Que. The new ship will serve Atlantic ports.*



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in seven provinces in 1968, and with the federal sales tax now total 20.4 cents a gallon on the average across Canada.

* * *

Imperial is a major supplier of chemicals to Canadian industry. Several steps were taken in 1968 to further expand this market:

- The company began marketing polypropylene and it is expected that this will lead to Imperial becoming Canada's first manufacturer of this product. Polypropylene is a plastic with many uses; among them is the manufacture of rugs, ropes, and automobile and appliance parts. Last year, Imperial acquired full ownership of a polypropylene processor, Poli-Twine Corporation Ltd., of Saskatoon, which manufactures twine and rope and is developing a new baler twine for farmers.
- The first shipments of polyvinyl chloride (PVC) were made to Europe. The company also opened a new market for the product in Canada, where its researchers co-operated with Polybottle Ltd., an Imperial subsidiary, to develop a shatter-proof PVC container for food products. The new bottle, which is the first such container developed in Canada, is being used for cooking oil by a national food processing company.
- Construction neared completion on the large-scale fertilizer complex near Redwater, Alta., where manufacture of phosphatic and nitrogenous fertilizers will begin this year, and on facilities for added ethylene capacity at Sarnia.

Sales of Building Products of Canada Ltd., another Imperial subsidiary, increased again, with volumes of roofing, fibreboard and other construction materials showing particularly significant gains.

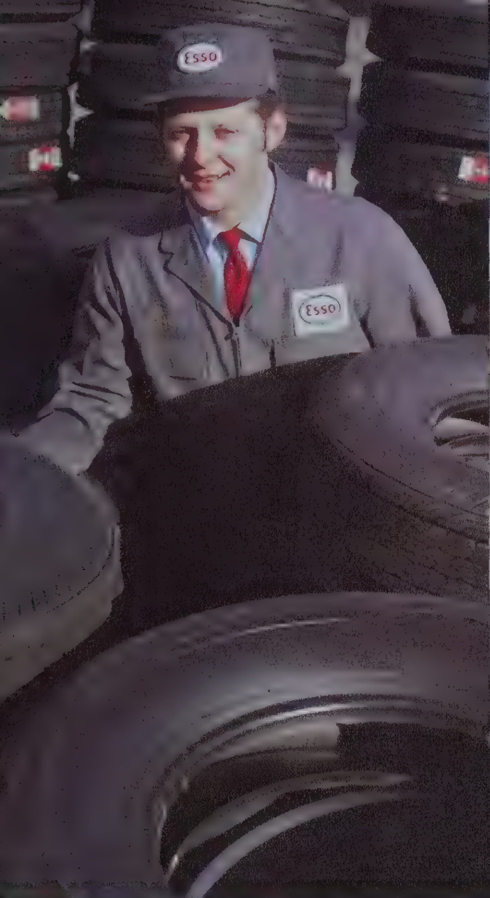
* * *

Imperial's net production of crude oil and natural gas liquids averaged 150,000 barrels a day, 6.4 per cent more than in 1967; natural gas production increased by 15 per cent to 326 million cubic feet a day.

During the year $29 million was spent to buy proven acreage, to develop oil and gas fields, and on secondary recovery projects which will increase the recovery of oil from existing fields. One such project was at Norman Wells on the Mackenzie River, another in the Rainbow area of Alberta. Also in Alberta, the capacity of the gas plant at Judy Creek, which removes and processes gas produced with oil from Swan Hills fields, was expanded 55 per cent to 85 million cubic feet a day. Owned jointly by companies in the area, the plant is operated by Imperial.

The company spent $32 million for exploration in 1968 as its search ranged from the western provinces to the Arctic to the Atlantic Ocean.

- Imperial holds exploration permits on 10 million acres in the delta of the Mackenzie River, about 100 miles east of the Canada-Alaska border and some 300 miles from the Prudhoe discovery referred to earlier. At year end the company had three seismic parties exploring in the delta area. It was also drilling a wildcat well at Tuktoyaktuk,



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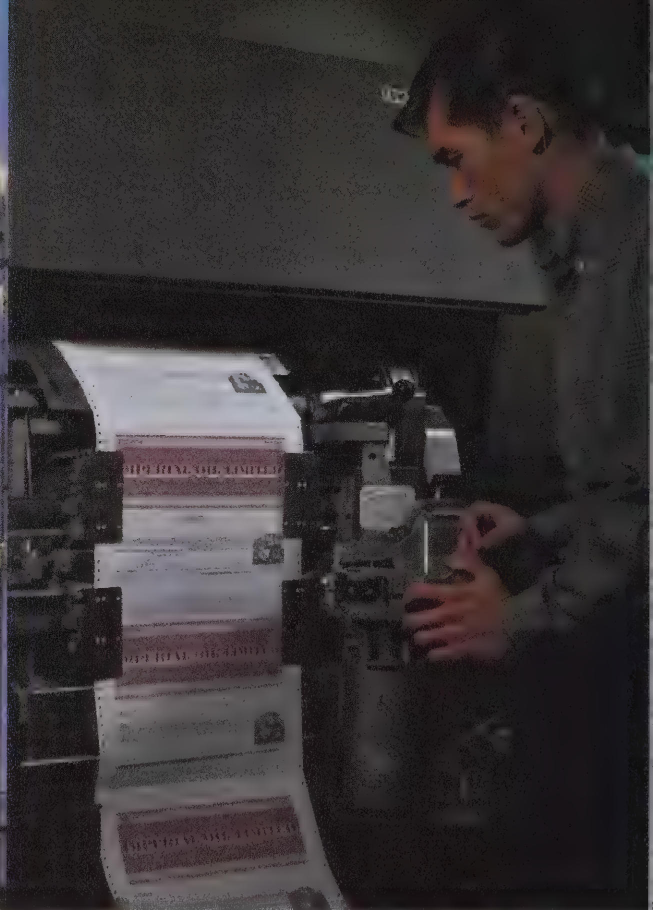
on the Arctic coast some 50 miles east of the Mackenzie River, and with two other companies was drilling a well at Tununuk near the mouth of the Mackenzie.

- On the east coast Imperial and an associate completed 4,200 miles of seismic work on a 40-million acre block on the Grand Banks off Newfoundland. A multi-million dollar semi-submersible drilling unit is under construction at Halifax. Scheduled for operation in 1970, it is designed to drill to 25,000 feet in water as deep as 800 feet and will be leased to Imperial and its associate in the offshore venture.
- In Alberta extensions to existing fields, and new discoveries, were made in the Rainbow-Zama area.

Laboratory and field pilot experiments were continued on the heavy oil deposits at Cold Lake. This program is aimed at achieving economic recovery of this very large reserve of viscous oil which cannot be produced by conventional methods.

PHOTOS *16. Ammonia converter is unloaded for shipment to Redwater fertilizer plants. 17. Polypropylene rope is made by Poli-Twine Corp. Imperial acquired full ownership of Poli-Twine last year. 18. Sales of Atlas tires increased substantially during 1968. 19. Shipment of phosphate rock for Redwater complex arrives at Vancouver. 20. Bituminous fibre pipe, made by Building Products of Canada Ltd., was used in construction at Sarnia. 21. Tests were run to secure process data on developing Imperial's northern Ontario columbium discovery.*



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The participants in Syncrude Canada Ltd., in which Imperial has a 30 per cent interest, reapplied during the year to the Alberta Oil and Gas Conservation Board for permission to begin a mining project in the Athabasca Tar Sands. The board deferred approval and the applicants, including Imperial, have requested an early rehearing.

In addition to its search for oil and gas, Imperial was actively exploring for minerals in seven of 10 provinces and in the Yukon. As a part of this program, pilot tests are being conducted to provide process and cost data relating to development of the company's earlier discovery of columbium — a mineral used principally as an alloying agent in steel — near Moosonee, Ont.

* * *

Imperial refineries processed an average of 359,000 barrels of crude oil a day in 1968, an increase of 2.6 per cent over the previous year.

The company's refinery expansion and modernization program continued throughout the year. Of special interest is that, with completion of new units at Sarnia, the crude oil processing capacity of Imperial's largest refinery was increased 32 per cent to 124,000 barrels a day. At Ioco, near Vancouver, new treating facilities went into operation and further modernization, at a cost of $4.5 million, was announced.

Our research centres in Sarnia and Calgary continued to support the company's petroleum products and chemicals operations and its exploration and oil field development programs. The new motor oil line and the Esso Extra engine cleaner additive formulation were developed by Imperial researchers. The design of new hydrofining treating units which went into operation at Ioco during the year was also based on studies carried out at Sarnia.

* * *

The company made important additions to its transportation facilities in 1968.

• The $7 million Imperial Bedford, a new 14,000 deadweight ton tanker, was launched at Lauzon, Que., and will move products from Dartmouth refinery to other east coast ports. Also awarded was a contract for a 4,500 deadweight ton tanker to be built at North Vancouver for west coast service in 1970. Both ships will replace older and smaller vessels.

• The company's first products pipe line in Quebec was completed from Montreal East refinery to Drummondville, in the Eastern Townships, a distance of 62 miles.

In crude oil transportation, steps were taken to increase the capacity of the Interprovincial-Lakehead pipe line, which links the Edmonton area to markets in Ontario and around the Great Lakes. Imperial owns a third of Interprovincial. To supplement the present line to Ontario by way of the Straits of Mackinac, a second line from Superior to Sarnia, by way of Chicago, was undertaken. Construction was completed as far as Chicago in 1968. The rest of the line to Sarnia will be finished this year.

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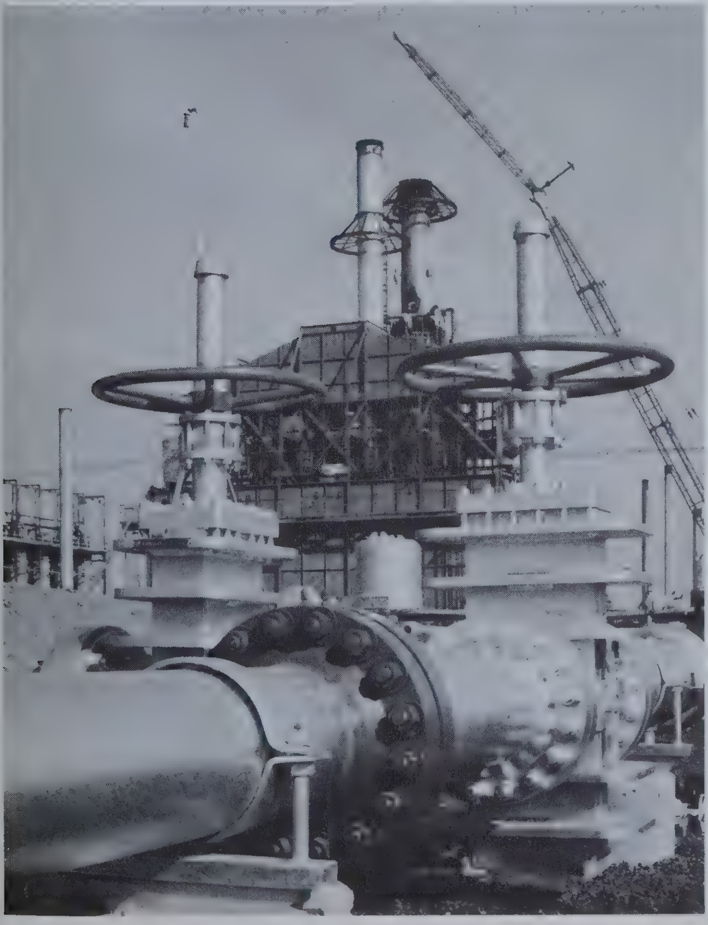

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At year end, in addition to its financial interests in major carriers such as Interprovincial and Trans Mountain, Imperial owned and operated more than 650 miles of crude gathering and product pipe lines.

* * *

Reflecting the rapidly growing complexity of technical and economic factors in the industry, the company continued to place strong emphasis on the selection and training of personnel. At Imperial, employee recruitment and training is a major management responsibility, and management development is a prime concern of the board of directors. A vigorous program of employee development is conducted both internally and externally. To illustrate, more than 784 employees have participated in a course, begun in 1967, which is designed to develop middle management skills.

* * *

Information on the financial results of the year's operations will be found in the following pages.

PHOTOS *22. New treating units were built at the company's Ioco refinery near Vancouver. 23. During 1968 new share certificates of the company were designed and printed. 24. This crew is drilling in the Norman Wells oil field, some 90 miles from the Arctic Circle. 25. A compound which improves engine performance was added to Esso Extra gasoline in 1968. 26. Construction was completed of a new products pipe line to service the Eastern Townships. Shown here is the start of the line at Montreal East refinery.*

Financial Review

On January 17, 1969 the stock of Imperial Oil Limited was split 4-for-1. Per share amounts, shares authorized and shares issued have been stated on the new basis in the financial review, the financial statements and in the 10-year summary.

EARNINGS

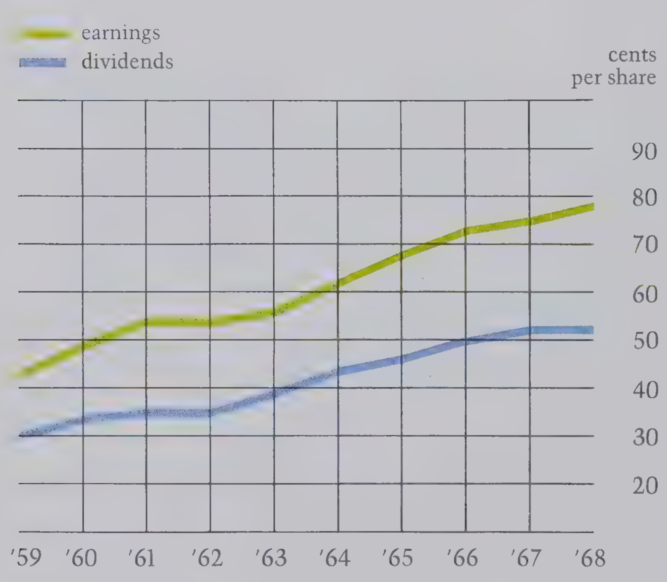
		1968	1967
Earnings		$100,045,000	95,515,000
Per share — after 4-for-1 stock split	¢	78	75
Change from previous year	%	4.7	3.3

DIVIDENDS PAID — AFTER 4-FOR-1 STOCK SPLIT

		1968	1967
Total dividends paid		$ 67,361,000	67,050,000
As a percentage of earnings	%	67	70
Total of quarterly dividends per share	¢	50	50
Extra dividend	¢	2½	2½
Total dividends per share	¢	52½	52½

Chart 1 shows a 10-year history of earnings and dividends per share. Dividends have been paid each year beginning 1891.

EARNINGS AND DIVIDENDS PER SHARE 1

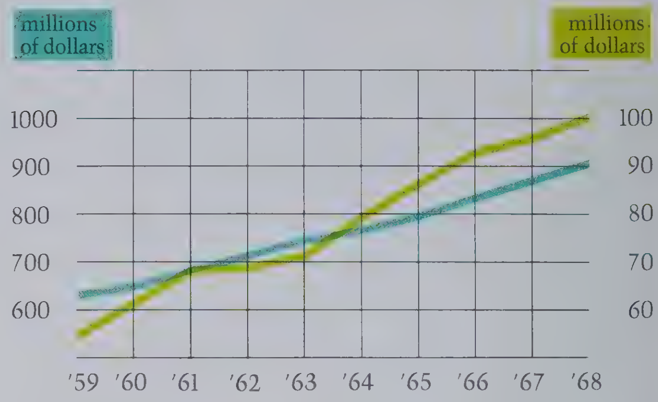


SHAREHOLDERS' INVESTMENT

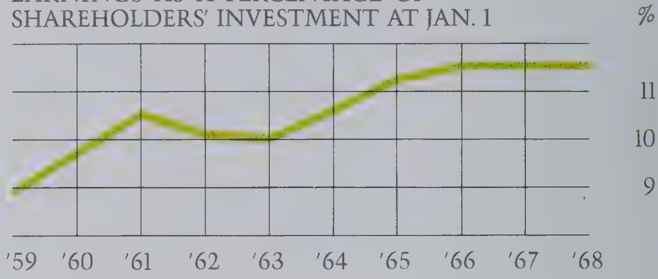
		1968	1967
At beginning of year		$870,038,000	830,147,000
Increase during the year		$ 35,596,000	39,891,000
At end of year		$905,634,000	870,038,000
Shares outstanding at end of year — after 4-for-1 stock split		128,437,096	128,201,596
Book value per share	$	7.05	6.79

Earnings as a percentage of shareholders' investment at January 1 was 11.5%, the same as in 1967. A 10-year history of shareholders' investment and earnings is provided in Chart 2.

SHAREHOLDERS' INVESTMENT EARNINGS 2



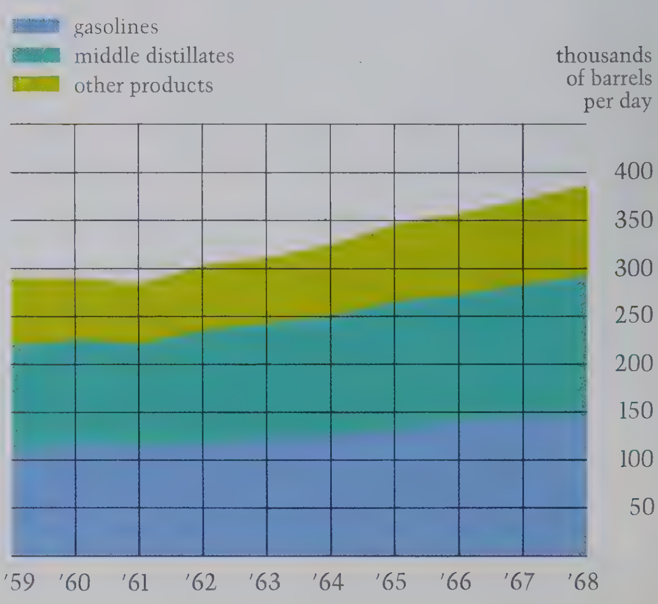
EARNINGS AS A PERCENTAGE OF SHAREHOLDERS' INVESTMENT AT JAN. 1



SALES AND OTHER OPERATING REVENUES

		1968	1967
		thousands of dollars	
Petroleum products, excluding road taxes	$	856,707	816,784
Crude oil and natural gas	$	389,352	321,224
Chemical products	$	67,608	65,312
Other products and merchandise	$	103,013	88,389
Other operating revenues	$	15,676	7,800
Total		$1,432,356	1,299,509
Change from previous year	$	132,847	115,914
Percentage change	%	10.2	9.8

PETROLEUM PRODUCT SALES 3



Petroleum products provide 60% of the total sales and other operating revenues. Revenue from these sales increased 4.9% over 1967 and volumes, at 383,000 barrels per day, were up 3.5%. Chart 3 provides a 10-year history of petroleum product sales volumes.

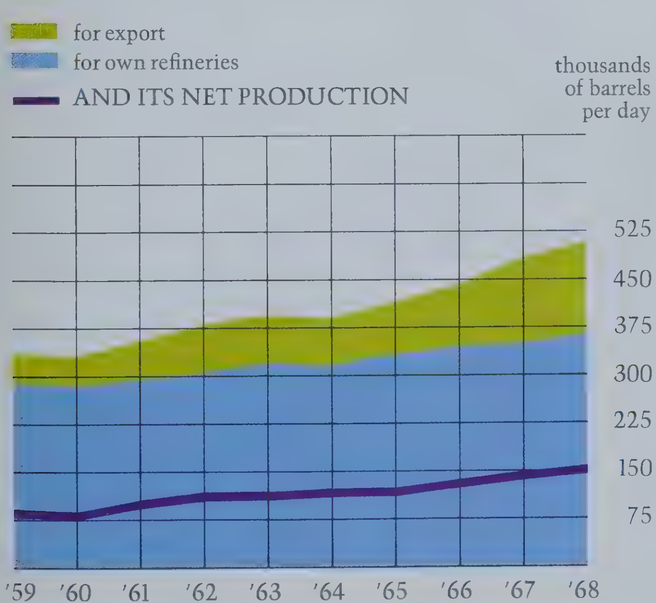
EXPENSES

Purchases of crude oil, products and merchandise increased 14% over 1967 and totalled $822,272,000. This reflected increased business volumes as well as supply difficulties resulting from the delay in start-up of new manufacturing units.

Imperial requires crude oil for its own refineries and for its export sales. In 1968 these requirements reached a record 504,000 barrels per day, an increase of 4.8% over 1967. Details are shown in the following table. Chart 4 gives a 10-year history of the company's requirements for crude oil and its net production of crude oil. Imperial could produce a larger part of its crude requirements from its own wells. Instead, because of Alberta's prorationing regulations, it must purchase substantial quantities from other producing companies in Canada.

Crude requirements	1968	1967
	thousands of barrels per day	
For own refineries	359	350
For crude export sales	145	131
Total	504	481

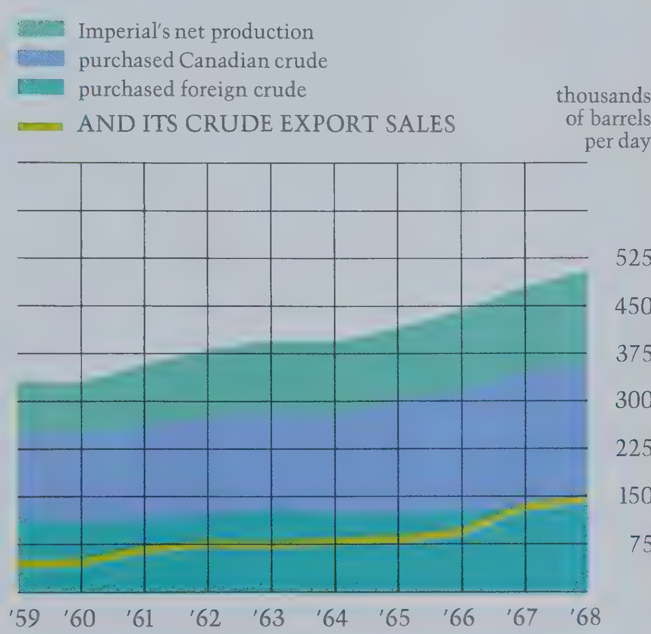
IMPERIAL'S REQUIREMENTS FOR CRUDE OIL 4



The following table provides details of Imperial's sources of crude for 1968 and 1967; Chart 5 gives a 10-year history. The chart also shows the relationship between foreign crude purchases and the company's crude export sales. For the second successive year crude exports, 145,000 barrels per day, have exceeded foreign crude imports, 136,000 barrels per day.

Crude sources	1968	1967
	thousands of barrels per day	
Imperial's net production	150	141
Purchased — Canadian crude	218	210
— Foreign crude	136	130
Total	504	481

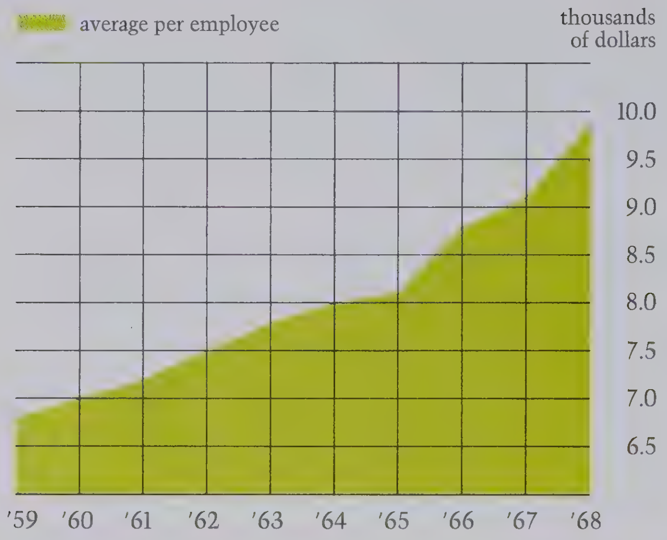
IMPERIAL'S SOURCES OF CRUDE OIL 5



Operating, exploration and administrative costs amounted to $356,769,000, an increase of $29,338,000 over 1967. This increase was due mainly to the start-up difficulties mentioned above and to rising payroll and benefit costs. Increased numbers of employees required for new manufacturing facilities and marketing service centres, together with higher rates of pay and benefit costs, increased payroll and benefit costs by 10.4%. Chart 6 provides a 10-year history of average salaries, wages and benefits per employee.

		1968	1967
		thousands of dollars	
Salaries, wages and benefits	$	149,671	135,599
Change from previous year	$	14,072	10,818
Percentage change	%	10.4	8.7

SALARIES, WAGES AND BENEFITS 6

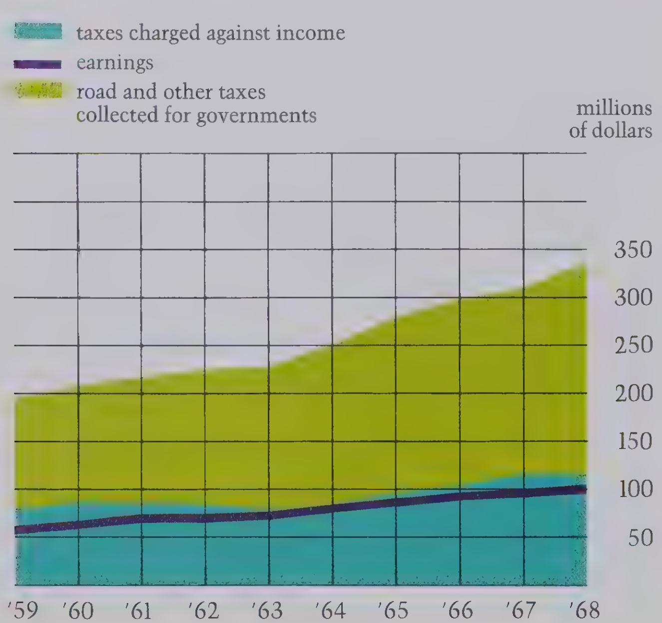


In 1968, taxes generated by the company were $336 million or 3.4 times earnings. Details of these taxes are presented in the following table while Chart 7 compares taxes with company earnings.

	1968	1967
	thousands of dollars	
Income taxes	$ 48,886	53,907
Federal sales taxes	$ 49,329	46,847
Property and other taxes	$ 16,886	16,235
Total charged against income	$ 115,101	116,989
Road and other taxes	$ 221,390	195,513
Total taxes generated	$ 336,491	312,502

In addition to these taxes, in 1968 the company paid $28,100,000 to governments for oil and gas royalties and to acquire and retain acreage exploration rights. This compares with $27,200,000 in 1967.

TAXES COMPARED WITH COMPANY EARNINGS 7

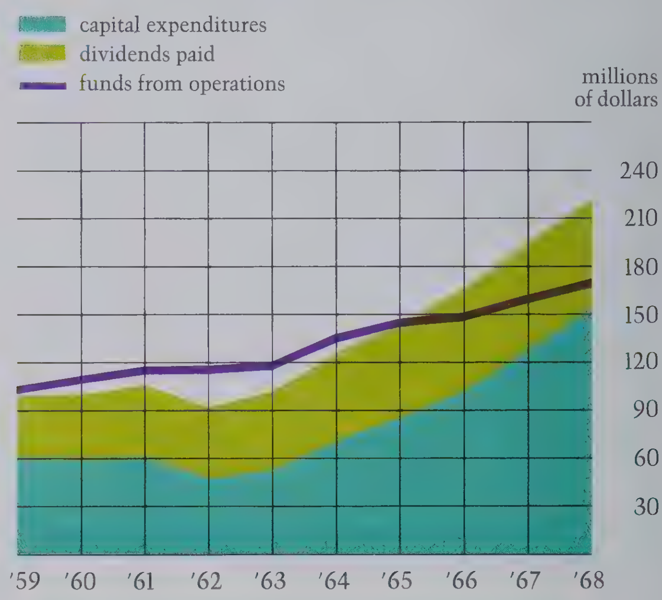


SOURCE AND USE OF FUNDS

A statement of source and use of funds for 1968 and 1967 appears with the financial statements on page 16.

A 10-year history of funds from operations compared with dividends and capital expenditures is provided in Chart 8.

FUNDS FROM OPERATIONS COMPARED WITH DIVIDENDS AND CAPITAL EXPENDITURES 8



WORKING CAPITAL

The complexity and size of the recent capital expenditure programs and the consequent longer lead time required for the generation of funds have resulted in a reduction in the company's working capital. To secure the needed funds the company issued $50 million in debentures early in 1968. Part of the 1968 capital expenditure program was financed through short-term loans. At year end, these loans totalled $36,600,000. Working capital has been further decreased by $20,000,000, the amount of long-term debt which matures in 1969. Details of the company's working capital position are provided in the consolidated statement of financial position on page 17.

	1968	1967
	thousands of dollars	
Current assets	$ 495,414	448,935
Less: current liabilities	$ 245,274	174,860
Working capital	$ 250,140	274,075
Ratio, current assets to current liabilities	2.0 to 1	2.6 to 1

Accounts receivable at the year end were $275,763,000, an increase of $44,432,000 or 19% over 1967. This increase resulted mainly from increased sales, extended use of credit facilities and extended terms of credit.

PROPERTY, PLANT AND EQUIPMENT

Capital expenditures of $155,778,000 brought gross investment in property, plant and equipment to $1,476,650,000 at December 31, 1968. Note 4 on page 18 provides details of these assets.

The following table shows capital expenditures by department for the past two years and Chart 9 provides a 10-year history.

	1968	1967
	thousands of dollars	
Producing, excluding exploration	$ 28,924	23,830
Manufacturing — petroleum products	$ 37,557	37,422
— chemical products	$ 43,242	19,067
Marketing*	$ 29,493	33,684
Transportation*	$ 13,666	11,869
Other	$ 2,896	2,796
Total expenditures	$ 155,778	128,668

*During 1968 marketing distribution functions were transferred to the Transportation and Supply Department. Prior years' figures have been restated to reflect this change.

CAPITAL EXPENDITURES 9

*During 1968 marketing distribution functions were transferred to the Transportation and Supply Department. Prior years' figures have been restated to reflect this change.

In addition to these capital expenditures, $31,945,000 was spent on exploration during 1968 compared with $36,310,000 in 1967. It is the company's policy to treat the costs of acquisition and retention of exploration acreage, geological and geophysical surveys, unsuccessful drilling and other exploration expenses as charges against current earnings.

Gross investment in fixed assets per employee increased to $97,379 by the year end. The capital intensive nature of the petroleum industry is indicated by this substantial investment. The following table illustrates the change over the last 10 years.

Fixed assets per employee	1968	1958
Gross investment in fixed assets at year end	$1,476,650,000	798,409,000
Number of employees at year end	15,164	13,599
Gross investment per employee	$ 97,379	58,711

INVESTMENT IN OTHER COMPANIES

The company has significant investments in other companies which are not consolidated in this report. The major companies are shown below. Their principal activity is the operation of crude oil trunk lines, with the exception of Tecumseh which is a natural gas storage company.

Major investment interests	*per cent interest*
Interprovincial Pipe Line Company	33.0
Trans Mountain Oil Pipe Line Company	8.6
Montreal Pipe Line Company Limited	32.0
Rainbow Pipe Line Company, Ltd.	33.3
Tecumseh Gas Storage Limited	50.0

EMPLOYEES' ANNUITIES

The company and its subsidiaries have a number of pension plans covering substantially all employees. These plans are periodically reviewed by an actuary. The company believes that adequate provision has been made for pension obligations.

At year end 2,761 retired employees were drawing pensions and 65 employees were drawing extended disability benefits.

A wide range of other employee benefits is also provided.

Imperial Oil Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEARS 1968 AND 1967		1968	1967
REVENUES		*thousands of dollars*	
Sales and other operating revenues	$	1,432,356	1,299,509
Investment and other income	$	23,046	19,701
	$	1,455,402	1,319,210
EXPENSES			
Crude oil, products and merchandise purchases	$	822,272	721,947
Operating, exploration and administrative expenses	$	356,769	327,431
Depreciation and amortization (note 4, page 18)	$	52,296	51,970
Income taxes (note 5, page 18)	$	48,886	53,907
Taxes, other than income taxes	$	66,215	63,082
Interest and discount on long-term debt	$	8,919	5,358
	$	1,355,357	1,223,695
EARNINGS FOR THE YEAR	$	100,045	95,515
per share — before adjustment for 4-for-1 stock split January 17, 1969	$	3.12	2.98
per share — after 4-for-1 stock split	$	.78	.75

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS FOR THE YEARS 1968 AND 1967		1968	1967
SOURCE OF FUNDS		*thousands of dollars*	
Funds from operations (earnings plus depreciation, amortization and deferred income taxes)	$	170,036	160,442
Debentures issued	$	50,000	50,000
Capital stock issued	$	2,912	11,426
Sales of property, plant and equipment	$	5,151	4,610
	$	228,099	226,478
USE OF FUNDS			
Capital expenditures for property, plant and equipment	$	155,778	128,668
Dividends paid to shareholders	$	67,361	67,050
Increase in long-term receivables, investments and other assets	$	5,045	2,588
Reduction of long-term debt	$	23,850	4,150
Other	$	—	11
	$	252,034	202,467
INCREASE (DECREASE) IN WORKING CAPITAL	$	(23,935)	24,011

The Notes to the Financial Statements are a part of these statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1968 AND 1967

	1968	1967
CURRENT ASSETS	*thousands of dollars*	
Cash, including time deposits	$ 44,289	46,808
Short-term commercial notes	$ 100	3,095
Government securities, at the lower of cost and market	$ 1,194	1,458
Accounts receivable (note 6, page 18)	$ 275,763	231,331
Prepaid taxes, insurance and rentals	$ 3,443	2,664
Inventories, on basis of cost which was less than market:		
crude oil, products and merchandise	$ 159,773	153,325
materials and supplies	$ 10,852	10,254
	$ 495,414	448,935
deduct:		
CURRENT LIABILITIES		
Bank loans	$ 36,600	—
Accounts payable and accrued liabilities (note 6, page 18)	$ 166,860	148,370
Income and other taxes payable	$ 21,814	26,490
Long-term debt due within one year	$ 20,000	—
	$ 245,274	174,860
WORKING CAPITAL	$ 250,140	274,075
add:		
PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS		
Property, plant and equipment, at cost less accumulated depreciation and amortization (note 4, page 18)	$ 811,365	713,034
Long-term accounts receivable, investments and other assets (note 7, page 19)	$ 90,693	85,648
CAPITAL EMPLOYED	$ 1,152,198	1,072,757
deduct:		
LONG-TERM LIABILITIES AND DEFERRED CREDITS		
Long-term debt (note 8, page 19)	$ 128,500	102,350
Employee annuity and contingent obligations	$ 12,724	12,724
Deferred income taxes (note 5, page 18)	$ 105,340	87,645
	$ 246,564	202,719
SHAREHOLDERS' INVESTMENT	$ 905,634	870,038
This investment is evidenced by		
Capital stock* (note 9, page 19)	$ 257,993	255,081
Authorized —160,000,000 no par value shares		
Issued 1968 —128,437,096 shares; 1967 —128,201,596 shares		
Earnings retained and used in the business		
at beginning of year	$ 614,957	586,492
earnings for the year	$ 100,045	95,515
dividends paid	$ (67,361)	(67,050)
at end of year	$ 647,641	614,957
	$ 905,634	870,038

*After 4-for-1 stock split.
The Notes to the Financial Statements are a part of this statement.

Approved by the Board.

Notes to the Financial Statements

1. GENERAL

The consolidated financial statements include the accounts of Imperial Oil Limited and all its subsidiaries.

2. CONTINGENCIES AND COMMITMENTS

The company is a party to agreements under which it has undertaken to guarantee or otherwise protect certain principal and interest obligations of various crude oil pipe line companies. The long-term indebtedness of these companies at December 31, 1968 for which the company is contingently obligated is shown in the table below. The pipe line companies are meeting these obligations as they fall due and present indications are that they will continue to do so.

	1968	1967
	thousands of dollars	
Interprovincial Pipe Line Company	$ 18,637	23,385
Montreal Pipe Line Company Limited	$ 1,920	2,080
Portland Pipe Line Corporation	$ 5,691	6,070
Rainbow Pipe Line Company, Ltd.	$ 5,000	30,405
Trans Mountain Oil Pipe Line Company	$ 16,517	18,617
	$ 47,765	80,557

The company has guaranteed or agreed to guarantee obligations of others, chiefly principal of and interest on borrowings, in the aggregate principal amount of $12,963,000.

Tanker charter hire and other rentals and commitments payable by the companies under long-term agreements approximate $8,122,000 annually.

3. REMUNERATION OF DIRECTORS

The total remuneration paid in 1968 to directors of the company was $898,000. All directors are full time employees of the company.

4. PROPERTY, PLANT AND EQUIPMENT AT DECEMBER 31

	1968	1967
Gross investment — at cost	*thousands of dollars*	
Producing	$ 453,366	427,798
Manufacturing	$ 416,549	384,199
Chemical products	$ 139,106	94,974
Marketing	$ 273,004	250,173
Transportation	$ 140,288	133,576
Other	$ 54,337	49,575
Total	$1,476,650	1,340,295
Accumulated depreciation and amortization		
Producing	$ 190,306	177,472
Manufacturing	$ 254,947	246,408
Chemical products	$ 37,614	33,338
Marketing	$ 101,200	93,823
Transportation	$ 65,032	63,150
Other	$ 16,186	13,070
Total	$ 665,285	627,261
Net investment	$ 811,365	713,034

Depreciation of plant and equipment is based on the estimated service lives of the assets, calculated on the straight line method. Amortization of producing well costs and of capitalized producing lease costs is determined on the unit of production method.

The charges against earnings in 1968 for amortization of producing well costs and capitalized producing lease costs amounted to $6,305,000 and the accumulated provision as at December 31, 1968 amounted to $116,819,000.

5. INCOME TAXES

It is the policy of the companies to claim maximum allowances for income tax purposes. In reporting to shareholders, it is the company's practice to provide for taxes on the basis of income reported in the accounts with one exception, the costs of successful or productive wells. The provision for income taxes in the earnings statement has been reduced by the actual tax relief obtained in connection with these well costs in the years in which the wells are drilled. Management does not believe that it is appropriate at this time to provide for deferred income taxes in respect of successful or productive wells. This view conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada. The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants recommends the tax allocation basis of accounting, whereby the income tax provision is based on income reported in the accounts. If this basis had been followed in respect to the exception mentioned above (producing well costs), the income tax provision would have increased and earnings decreased by $3,100,000 in 1968 and by $1,100,000 in 1967; the accumulated amount in this regard would have been $37,900,000 at December 31, 1968.

The companies carry on operations in all phases of the complex petroleum and petrochemical industry and the related income tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question, sometimes for large amounts. In this connection, the company received an assessment on the gain realized in 1963 on the disposal of natural gas storage rights and facilities. As required by law the company has paid the tax of $4,400,000 including interest and, on the advice of counsel, has filed a notice of objection to the assessment. The amount of this payment has been included in Funds on Deposit with Governments and Others (note 7). No income tax provision has been made for this item.

The companies have made what they believe are adequate provisions for income taxes payable. The income tax returns of the company and its principal subsidiaries have been assessed up to and including the year 1963.

6. AMOUNTS OWING TO AND FROM AFFILIATED COMPANIES

At December 31, 1968 balances owing to and from affiliated companies, all of which arose in the normal course of operations, are $26,727,000 and $7,324,000 respectively.

7. LONG-TERM ACCOUNTS RECEIVABLE, INVESTMENTS AND OTHER ASSETS AT DECEMBER 31

	1968	1967
	thousands of dollars	
Long-term accounts receivable	$54,191	50,108
Investment in other companies, at cost:		
With quoted market value 1968 – $179,725,000 1967 – $194,189,000	$16,012	16,012
Without quoted market value	$ 7,727	8,043
Funds on deposit with governments and others	$ 8,264	3,853
Government of Canada Special Refundable Tax	$ –	4,269
Deferred charges	$ 4,499	3,363
	$90,693	85,648

8. LONG-TERM DEBT

	1968	1967
Imperial Oil Limited	*thousands of dollars*	
3% Sinking Fund Debentures, 1949 Issue, maturing December 15, 1969	$ 20,000	20,000
3⅝% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975 Sinking Fund Requirements: $1,000,000 in the year 1971 $2,500,000 in each of the years 1972 to 1974 inclusive	$ 28,500	32,350
6¾% Sinking Fund Debentures, 1967 Issue, maturing January 2, 1987 Sinking Fund Requirements: $2,500,000 in each of the years 1971 to 1986 inclusive	$ 50,000	50,000
7¼% Serial Debentures, 1968 Issue, maturing $2,000,000 annually from January 2, 1972 to January 2, 1976 inclusive	$ 10,000	–
7⅜% Sinking Fund Debentures, 1968 Issue, maturing January 2, 1988 Sinking Fund Requirements: $2,500,000 in each of the years 1977 to 1987 inclusive	$ 40,000	–
Total	$148,500	102,350
Amount due within one year	$ 20,000	–
	$128,500	102,350

9. CAPITAL STOCK

Under the company's Incentive Stock Option Plans of 1959 and 1965, employees may be granted options to purchase unissued common shares of the company at not less than 95 per cent of the market price on the date of granting the options. As of December 31, 1968, but after adjustment for the stock split of January 17, 1969, there were outstanding options for 964,196 shares exercisable at prices of $10.77¾, $12.85½, $12.76½, $15.79¼ and $17.93. Options for 323,896 shares may be exercised currently, for 322,000 shares after July 28, 1969, and for 318,300 shares after August 20, 1970. Included in the above are 254,600 shares under option to directors or officers. In 1968 the company issued 235,500 shares (representing 58,875 shares on a before-split basis) for $2,912,000 all under the terms of the Plans.

AUDITORS' REPORT TO THE SHAREHOLDERS OF IMPERIAL OIL LIMITED

We have examined the Consolidated Statement of Financial Position of Imperial Oil Limited and its subsidiary companies as at December 31, 1968 and the Consolidated Statements of Earnings and Source and Use of Funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants
Toronto
March 6, 1969

Imperial Oil Limited and Subsidiary Companies

TEN YEAR SUMMARY

Financial

dollars in millions except share amounts

	Revenues	*Net Earnings*			*Dividends*		
Year	Operating and investment	Total	Per share* cents	As a percentage of revenues	Total	Per share* cents	As a percentage of earnings
1968	$1,455.4	$100.0	78	6.9%	$67.4	52½	67%
1967	1,319.2	95.5	75	7.2	67.1	52½	70
1966	1,201.3	92.4	73	7.7	63.5	50	69
1965	1,161.9	86.2	68	7.4	58.7	46¼	68
1964	1,081.0	79.1	62	7.3	55.4	43¾	70
1963	1,015.2	71.1	56	7.0	49.0	38¾	69
1962	977.9	68.4	54	7.0	44.2	35	65
1961	907.8	67.8	54	7.5	44.2	35	65
1960	873.6	61.2	49	7.0	42.5	33¾	69
1959	866.8	54.5	43	6.3	37.8	30	69

Financial Position at Year End

Year	Current assets	Current liabilities	Working capital	Ratio current assets to current liabilities	Property, plant and equipment net	Other assets	Capital employed
1968	$495.4	$245.3	$250.1	2.0	$811.4	$90.7	$1,152.2
1967	448.9	174.8	274.1	2.6	713.0	85.7	1,072.8
1966	393.4	143.3	250.1	2.7	640.9	83.1	974.1
1965	401.6	130.3	271.3	3.1	592.8	73.1	937.2
1964	380.4	116.3	264.1	3.3	562.7	77.6	904.4
1963	388.9	125.1	263.8	3.1	545.1	68.3	877.2
1962	350.8	102.4	248.4	3.4	544.3	58.6	851.3
1961	335.8	106.5	229.3	3.2	547.6	55.5	832.4
1960	318.0	98.3	219.7	3.2	535.5	49.3	804.5
1959	319.8	97.6	222.2	3.3	523.4	40.9	786.5

Operating

Exploration and Production

				Net Wells Capable of Production		*Gross Recoverable Reserves***	
Year	Gross land holdings (millions of acres)	Net exploratory wells drilled	Net development wells drilled	Crude oil	Natural gas	Crude oil and natural gas liquids (millions of bbls.)	Natural gas (billions of cubic feet)
1968	46	90	54	2,992	244	1,593	3,117
1967	45	64	71	2,947	225	1,517	2,860
1966	50	81	87	2,987	219	1,534	2,964
1965	51	66	136	2,908	208	1,522	2,706
1964	32	84	116	2,828	200	1,437	2,620
1963	22	72	137	2,764	196	1,264	2,285
1962	17	65	171	2,685	183	1,138	2,447
1961	20	52	214	2,625	166	1,025	2,047
1960	20	68	100	2,411	159	1,001	1,576
1959	25	73	67	2,318	157	882	1,410

* Adjusted for 4-for-1 stock split January 17, 1969.

** After allowing for production to date, these are estimated reserves which the company feels can reasonably be considered as proved.

Funds from Operations		*Taxes*						
Total	Per share*	Charged against income	Road and other taxes	Total taxes generated	Capital expenditures	Exploration expenditures	Research expenditures	Year
$170.0	$1.32	$115.1	$221.4	$336.5	$155.8	$31.9	$23.0	1968
160.4	1.25	117.0	195.5	312.5	128.7	36.3	20.2	1967
148.7	1.17	102.8	196.7	299.5	102.8	37.0	17.9	1966
145.3	1.15	95.1	183.7	278.8	85.6	30.0	19.0	1965
134.7	1.06	86.7	164.6	251.3	71.6	28.3	17.0	1964
117.8	.93	79.4	148.1	227.5	52.5	27.7	10.8	1963
116.2	.92	82.6	142.2	224.8	49.1	27.3	11.3	1962
114.9	.91	85.6	132.2	217.8	62.1	24.6	9.4	1961
109.1	.87	84.6	122.9	207.5	58.7	30.8	12.1	1960
103.2	.82	78.0	117.5	195.5	62.2	29.7	9.2	1959

				Shareholders — at year end		*Employees*		
Total assets	Long-term debt	Shareholders' investment	Earnings as % of shareholders' investment at January 1	Number	Shares issued* (thousands)	Number at year end	Payroll and benefits	Year
$1,397.5	$128.5	$905.6	11.5%	37,780	128,437	15,164	$149.7	1968
1,247.6	102.4	870.0	11.5	39,578	128,202	14,933	135.6	1967
1,117.4	56.5	830.1	11.5	41,088	127,167	14,289	124.8	1966
1,067.5	58.4	798.3	11.2	41,208	126,885	13,693	110.8	1965
1,020.7	64.1	768.6	10.6	40,924	126,674	13,623	103.6	1964
1,002.3	69.4	742.6	10.0	42,057	126,443	11,998	95.1	1963
953.7	73.0	712.4	10.1	43,195	126,428	12,257	95.2	1962
938.9	76.5	679.1	10.5	43,562	126,408	12,578	91.7	1961
902.8	80.0	648.7	9.7	45,949	125,856	13,007	92.2	1960
884.1	83.0	629.9	8.9	45,332	125,847	13,080	92.9	1959

Production of Crude Oil and Natural Gas Liquids		*Natural Gas Production*		*Manufacturing*		*Marketing*	
Gross	Net after royalties	Gross	Net after royalties	Crude processed	Refinery capacity Jan. 1	Sales of petroleum products	
thousands of barrels per day)		(millions of cubic feet per day)		(thousands of barrels per day)		(thousands of bbls. per day)	Year
173	150	381	326	359	397	383	1968
163	141	334	283	350	378	370	1967
146	127	258	218	346	370	356	1966
133	115	215	181	332	355	348	1965
131	114	188	160	314	345	324	1964
126	109	185	159	319	339	311	1963
124	108	170	150	305	338	303	1962
111	97	131	117	291	338	283	1961
90	79	120	108	285	332	288	1960
96	84	108	98	289	319	287	1959

Front Cover *(top) Imperial intensified its exploration effort in the Arctic during 1968. Drilling was carried out in temperatures as low as 60 degrees below zero. (bottom) New service stations are designed to blend in with their surroundings. This outlet on Nuns' Island near Montreal, opened in 1968, was designed by renowned architect Mies van der Rohe.*

Back Cover *(top) Imperial Oil rig at Tuktoyaktuk on the Arctic coast. (bottom) Sarnia refinery, where major new units went on stream during 1968 and construction of others continued.*

Lithographed in Canada by Sampson-Matthews Ltd